

West Virginia State University Research and Development Corporation

Financial Statements as of and for the Years Ended
June 30, 2012 and 2011, and Independent Auditors'
Report and Reports Required by OMB Circular A-133
for the Year Ended June 30, 2012

**WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
West Virginia State University
Research and Development Corporation:

We have audited the accompanying statement of net assets of West Virginia State University Research and Development Corporation (the Corporation) as of June 30, 2012 and the related statement of revenues, expenses, and changes in net assets, and of cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the Corporation as of June 30, 2011, were audited by other auditors whose report dated February 22, 2012, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Corporation as of June 30, 2012, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October, 11, 2012, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Huntington, West Virginia
October 11, 2012

West Virginia State University Research and Development Corporation

Management Discussion and Analysis Fiscal Year Ended June 30, 2012

I. Introduction

A. *Historical Background*

West Virginia State University Research and Development Corporation (the Corporation) was incorporated in 1991, under the W. Va. Code Chapter 18B, to serve as the West Virginia State University's (the University) primary fiscal agent for research funds sponsored by federal, state, municipal, corporate, foundation grants, contracts, and gifts awarded to the University. The Corporation operates as a nonprofit entity exclusively for charitable, educational, and scientific purposes within the meaning of Section 501(c)(3) of the Internal Revenues code of 1986, as amended. Under both, its affiliations and operating agreements, with the University's Board of Governors and the University, respectively, the Corporation provides management oversight for the aforementioned University's functions.

B. *Overview of the Financial Statements and the Financial Analysis*

West Virginia State University is a Historically Black University founded in 1891 as an 1890 Land-Grant institution of higher education. The University's central mission is to provide its state's citizens and stakeholders with quality instruction, research opportunities, and public educational outreach. In the last decade, propitiated by the regaining of its research and extension functions, as well as the establishment of graduate programs, the University continues evolving into a more intensive research and service-oriented institution. External supplemental support has become essential to enhancing the delivery of the University's mission. Therefore, the University encourages its faculty, administrators, and staff to actively pursue externally sponsored programs in the advancement of its educational activities. The University has experienced a gradual increase in external support which is reflected in the steady growth of the Corporation's operating revenues and expenses, as well as in its assets and liabilities since its inception, in 1991.

The discussion and analysis of the Corporation's financial statements are required supplemental information prescribed by the Governmental Accounting Standards Board ("GASB") No. 34 & 35. This financial information is structured into an activity-based reporting format and provides an overview of the Corporation's fiscal activities focusing on the year ended June 30, 2012. The analysis is based on the position of three main financial statements: (1) Net Assets, (2) Revenues, Expenses, and Changes in Net Assets, and (3) Cash Flows. Additional information relevant to fiscal years 2011 and 2010 is also included in this analysis to facilitate the reader a comparative framework between immediate past and present financial positions of the Corporation.

II. Statement of Net Assets

The "Statement of Net Assets" reflects the Corporation's assets, liabilities, and its net assets status at the end of the fiscal year. This statement provides to the University's stakeholders fiscal information of the Corporation at a point in time (June 30, 2012).

Net assets are divided into three main categories: (1) investment in capital assets, net of debt, (2) restricted net assets, and (3) unrestricted net assets. The first asset category provides information on the Corporation's interest in property, and plant and equipment owned by the institution. The second category is further divided

into non-expendable and expendable restricted net assets. Non-expendable restricted net assets are only available for investment purposes; usually the Corporation does not operate restricted net assets. Expendable restricted assets are assets to be expended by the institution for the purpose in which donors and/or grantors have intended (time and purpose restriction). Finally, unrestricted net assets are not restricted as to use, but only available to the institution for allowable expenditures.

Net Assets			
	FY 2012	FY 2011	FY 2010
Assets			
Current assets	\$788,188	\$1,349,508	\$1,065,958
Cash and cash equivalents	490,794	163,219	435,110
Non-current assets:			
Capital assets, net	<u>1,428,578</u>	<u>1,411,981</u>	<u>1,150,062</u>
Total Assets	<u>\$2,707,560</u>	<u>\$2,924,708</u>	<u>\$2,651,130</u>
Liabilities			
Current liabilities	502,948	524,482	558,151
Non-current liabilities	<u>2,699,714</u>	<u>1,988,376</u>	<u>939,112</u>
Total Liabilities	<u>3,202,662</u>	<u>2,512,858</u>	<u>1,497,263</u>
Net Assets			
Invested in capital assets, net of debt	1,428,578	1,411,981	1,150,062
Restricted – expendable			
Unrestricted	<u>(1,923,680)</u>	<u>(1,000,131)</u>	<u>3,805</u>
Total Net Assets	<u>(495,102)</u>	<u>411,850</u>	<u>1,153,867</u>
Total Liabilities and Net Assets	<u>\$2,707,560</u>	<u>\$2,924,708</u>	<u>\$2,651,130</u>

In fiscal year 2012, the Corporation's total assets decreased by \$217,148 (7% decrease) from the previous year. A decrease in the total portion of the current assets by \$561,320 (42%) was the main factor influencing the overall decrease in total assets, compared to the previous year. The portion comprised of cash and cash equivalents was up this year by \$327,576. Current assets comprised of grants and contracts receivable, prepaid expenses, and cash and cash equivalents represented 47% of the total assets; whereas the non-current portion represented 53%. In fact, the portion of grants and contracts receivable increased by \$527,020 this year. In relation to the portion of non-current assets, the value of capital assets net increased again, slightly by \$16,597 (1%) from the previous year. Therefore the overall decrease in total assets was due to a decrease in the value of current assets (42% reduction). The value of cash and cash equivalents depends on the level of grant activity and the time at which this report is prepared. It is also normally affected by receivables and payables in transit as well as by outstanding items, such as checks.

The balance of total liabilities during the current fiscal year increased again by 27% (\$689,804); last year's total liabilities experienced an increase of 68%. A large part of this increase resided once more within the non-current liabilities portion, which increased 36% (\$711,338), compared to last year value. The booking of outstanding other post-employment benefits (OPEB) accrued this year alone (\$685,034), represented 96% of the non-current liabilities. Compared to the previous year, the non-current portion of the compensated

absences increased from \$29,737 to \$56,041. On the other hand, current liabilities slightly decreased by 4% (from \$524,482 to \$502,948) caused by a respective small reduction in the accounts payable (\$23,851 less) and the current portion of the compensated absences (\$15,479 less). Accounts payable are variable throughout the year and also vary from year to year depending upon the level of activity related to the Corporation's primary activities. In relation to the total liabilities' value, current and non-current liabilities this year contributed 16% and 84% respectively this year, compared to 21% and 79% the previous year. This different proportion suggest that the Corporation was able to operate with less current liabilities this year; however the Corporation's non-current portion liabilities continued to increase.

The value of total net assets contracted again significantly by \$906,952, from the previous year; which was caused mainly by a large deficit in the portion of unrestricted net assets; in spite of a modest increase (1%) in the portion related to investment in capital assets, net of debt. The drastic deficit in unrestricted net assets was largely attributed to the booking of OPEB related to this year accrued liability entry. The value of accumulated depreciation (\$389,781) and equipment reductions (\$220,580), relative to the value of capital assets additions (\$414,619), increased only slightly the overall value of capital assets net by \$16,597, this year. Investment in capital assets comprised the purchase of fixed assets that are required to fulfill the goals and objectives established for each of the grants and contracts. These assets normally include the purchase of scientific and educational equipment. Thus, the slight increase in capital assets (\$16,597) can be attributed to the acquisition of equipment and related assets required to run the ensued research and academic activities comprised within these awards. Unrestricted net assets are normally utilized by the Corporation as supporting funding to cover for expenses related to reimbursable grants in excess of the grant, and to reimburse the institution for facilities and administrative costs incurred in conducting research or its associated educational activities. This year the value of unrestricted net assets is actually negative due to the fact that the OPEB liability accumulated up to date (-\$2,643,680) had to be allocated to this particular component of the statement of net assets. The Corporation's unrestricted net assets mainly derived from external donors and the recovery of indirect costs from grants and sponsored agreements.

III. Revenue, Expenses, and Changes in Net Assets

The statement of "Revenue, Expenses, and Changes in Net Assets" reveals the financial activities that contributed to changes in the total net assets. The main purpose of this statement is to show the revenues earned and the expenses incurred by the Corporation during the ensued fiscal year. Both, the revenues earned and the expenses incurred by the Corporation, are disclosed as operating and non-operating. Any other revenues, expenses, gains, and losses are also part of this statement.

Operating revenues generally derived from grants, contracts, and sponsored agreements to provide goods and services to the Corporation's funding agencies or constituents. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Corporation. Non-operating revenues are those revenues not linked to the providing of goods and/or services.

Revenues, Expenses and Changes in Net Assets

	FY 2012	FY 2011	FY 2010
Operating revenues	\$14,905,490	\$13,017,198	\$12,324,470
Operating expenses	<u>16,219,018</u>	<u>14,385,795</u>	<u>12,905,136</u>
Operating Gains/Losses	(1,313,528)	(1,368,597)	(580,666)
Non-operating revenues and expenses:	406,576	626,580	454,297
Increase (Decrease) in Net Assets	(906,952)	(742,017)	(126,369)
Net – Assets Beginning of Year	<u>411,850</u>	<u>1,153,867</u>	<u>1,280,236</u>
Net Assets (Deficit) – End Year	<u>(\$495,102)</u>	<u>\$411,850</u>	<u>\$1,153,867</u>

Operating revenues for the Corporation typically originate from federal, state, and private funding sources. Operating revenues this year increased by 15% (\$1,888,292) compared to 6% and 4% increases in the respective previous two years. This year's increase in operating revenues resulted solely from a 25% increase in federal funding (\$2,351,664). State and private funding actually decreased in 2012 by a 5.3% and 37.4%, respectively. The increase in the level of federal funds was derived from a corresponding increase in competitive grants and increases in formula funds (Land-Grant and Title III-B) used to enhance the University's educational research and extension activities. Private funds contracted again this year more significantly by almost 37% (\$325,296); this downward trend has been consistent since 2010 (diminished by 12% and 24%). Based on these results, it is evident that private funding may be more difficult to attain under the current economic climate; and thus concerted increased efforts to secure private funding must be considered. The Corporation's revenue composition varies from year to year depending upon the availability of funds from each revenue source, and the overall level of combined efforts exercised by the Corporation and University's faculty, staff and administrators. Notwithstanding, the overall positive growth trend, in relation to the Corporation's operating revenues for the past 4 years continues (above 5% in average). This positive trend in the Corporation's growth reflects a continued effort in securing external sources of funds by the University's faculty, staff, and administrators.

The Corporation's total operating expenses this year increased by 13%, compared to a 11% increase in the previous year. The operating expenses increased from \$14,385,795 to \$16,219,018. Operating expenses are generally proportionally related to the level of operating revenues. The more revenues the Corporation manages, the higher the level of expenditures incurred. The significant increase (\$1,833,223) in the Corporation's total operating expenses was attributed in its majority to a significant increase in expense related to payments to suppliers (35% increase from last year), followed by a modest increase in those expenses related to depreciation (6.9%) and employee benefits (4.0%). The increase in expenses related to employee benefits can be explained by an overall increase in the price of employee benefits assessed by the provider during this reporting period. Expenses related to salaries and wages however decreased this year by 4 % apparently due to a reduction in labor force undergone during the ensued fiscal year. Also, expenses related to utilities decreased by 9% compared to the previous year.

The Statement of Revenues, Expenses, and Changes in Net Assets, shows an operating loss for the year of \$1,313,528 compared to last year's similar operating loss of \$1,368,197. Operating losses this year were

again mainly attributed to the value of depreciation, the inclusion of the OPEB as a component of liability, and a decrease in private revenues. The activity-based financial reporting format, to which the Corporation subscribes, through GASB 34 and 35, must account for the value of depreciation of its capital assets. Capital assets (e.g. research and other educational equipment) acquired through grants and contracts are recorded as capital expenses and capitalized by the Corporation or the University's fiscal entities. The cost of these assets' depreciation is not recovered by the institution due to the fact that it cannot be charged back to federal or state grants and/or contracts in preceding years. Thus, accumulated depreciation affects too the value of assets acquired in a given year. Another factor affecting the status of the Corporation's operating activity (gains or losses) is the reimbursable nature of its revenues. Revenues are recovered based on the expenditures and thus a deficit status results while the revenue is reimbursed to the Corporation.

Non-operating revenues and expenses decreased this year by 35%, from \$626,580 to \$406,576, in relation to the previous year. The value of capital grants and gifts to the institution also decreased this year from \$710,805 to \$414,619. This reduction in capital grants and gifts had also a consequential negative impact on this year's value of net assets (-\$495,102) compared to last year's value of \$411,850.

IV. Cash Flows

The last financial statement presented by the Corporation is the "Statement of Cash Flows". This statement provides detail information regarding the Corporation's cash activities during the year's end. The statement of cash flows is comprised of five elements. The first component relates to operating cash flows, which shows the net cash used by the Corporation in carrying out its operating activities. The second section reflects the cash flow activities from non-capital financial activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financial purposes. The third component provides information on cash flows from investing activities, which shows the level of purchases, proceeds, and interests received from investing activities. The Corporation does not purposely engage in investing activities of any funding derived from externally sponsored support. The fourth section provides information on cash flows from capital and related financing activities. The Corporation engages in the acquisition of fixed assets and construction activities as per agreements with funding agencies. The last section reconciles the net cash used to the operating income (or losses) reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Cash Flows

	FY 2012	FY 2011	FY 2010
Cash provided (used) by:			
Operating activities	\$327,377	(\$271,989)	(\$137,108)
Investing activities	198	98	127
Capital and related financing activities	0	0	0
Net Increase (Decrease) in Cash and Cash Equivalents	327,575	(271,891)	(136,981)
Cash, beginning of year	163,219	435,110	572,091
Cash, end of year	\$490,794	\$163,219	\$435,110

The Corporation's cash and cash equivalents as of June 30, 2012 was \$490,794. The cash and cash equivalents of the previous two years were \$163,219 and \$435,110, respectively. This year's higher value compared to last year can be attributed to a surplus originated from the cash provided by operating activities \$327,377. Cash flow provided by financing activities represented only \$198, from interest income. Interest income derived from federal and state accounts is always minimized by drawing down cash only on a reimbursable or encumbrance basis. Investment gain in the form of interests from the majority of its operating funds is not a primary target activity of the Corporation. The combined carrying amount of cash in bank at June 30, 2012 and 2011 was \$490,795 and \$163,219, respectively, compared to the combined bank balance of \$735,905 and \$427,435, respectively. The difference is primarily caused by outstanding checks and items in transit. The Corporation needs to carry a certain level of cash in the banks to effectively conduct its operating activities. In relation to the operating expenses, the level of cash required this year was 3%; the average required within the last 10 years is 6%.

The total value of cash and cash equivalents this year, in relation to the total value of operating revenues was only 3% which appears to be in congruency compared to the values from previous years (1%, 4% and 5%, respectively). This level of overall cash, as a percentage of operating revenues, suggests that the Corporation operated and meet its obligations with slightly more cash in relation to the previous year but not in relation to the subsequent two years.

V. Capital Assets and Debt Administration

The Corporation, through an Operations Agreement with the University, is charged with the fiscal management of all grants, contracts, and sponsored agreements for the institution. Certain grants allow purchases of capital assets including educational and research equipment, land and buildings, new construction and renovation of educational facilities, infrastructural development, and motored vehicles. This year, the purchase of capital assets in terms of additions totaled \$414,619 compared to \$710,806 from the respective previous year. It is the Corporation's policy that major assets (excluding vehicles), such as real state and capital improvements, be generally titled to the University and recorded on the University's financial statements. Thus, these major assets are normally recorded as expenditures within the Corporation and transferred to the University as assets. The assets carried in the Corporation's capital assets are limited to vehicles, computing, scientific, and research equipment.

The Corporation did not administer any debt during fiscal year 2011 or 2012.

VI. Economic Outlook

West Virginia State University continues strengthening its capabilities of delivering teaching, research, and outreach programs, as an 1890 Land-Grant Institution of higher education. While the institution maintains its tradition of excellence in teaching, it also continues to expand its research and outreach programming, which require the key support of additional external resources. The regaining of the University's Land-Grant and University statuses and the implementation of graduate programs has augmented activities related to research, teaching and public service. To that end, the University will continue to encourage its academic faculty, and research and outreach staff to seek opportunities for enhancing research, teaching, and public service through external sponsored funding. As a land-grant institution, the University currently receives federal and state entitlements, including formula funds and associated state matching appropriations exclusive to 1890 Universities. However, a great portion of the external support received by the University comes from competitive grants and unsolicited requests. Although government-derived resources have become scarcer in the past years, the University has managed to modestly increased (or at least maintain) their level of revenues derived from these sources, in the last decade. The University recognizes that increased efforts must be pursued to improve and expand its funding sources derived from non-traditional sources, such as partnerships with the private and non-private institutions and foundations, and generating program income through the sale

of services and the establishment of intellectual property. As externally sponsored resources become increasingly more prominent within the University, the West Virginia State University Research and Development Corporation has been able to adjust to this continuous demand and growth. Because of the institutional commitment, in terms of enhancing the University's mission and service to its constituents, it is expected that this growing trend transcends (at the same or faster pace) throughout the next decade.

The University has recently undergone a reorganizational structure which permits a more efficient and effective way to obtain and manage external and internal resources for the conduct of research, instruction, and outreach programming. This reorganization supports the establishment of additional graduate programs at the University and their associated research and public service. Thus, the University will continue to seek to increase funding to support current (and future) programs. Furthermore, the institution will continue seeking to increase participation in statewide initiatives, along with other state Universities, related to research infrastructural development which could in turn translate into regional economic development. As these endeavors materialize, there will also be greater administrative activity and more opportunities for the University to continue the quest of enhancing its mission via external funding.

The national federal funding climate for the next two federal fiscal years is expected to be flat at best. In some instances, however, there will be significant reductions in federal funding to higher education institutions. For example the USDA, one of the University's key federal land-grant partner, is projected to cut federal formula funds to colleges and universities by up to 10% for federal fiscal year 2013 and up to 7.5% in federal fiscal year 2014. West Virginia State University, like many other land-grant colleges and universities across the country, are being proactive in preparing for these cuts. These will include, but not be limited to, strategic staffing, freezing vacant positions, and possibly layoffs. As stated earlier, the University will continue to be aggressive in seeking funding via competitive grants and contracts in an attempt to both bring in resources to support the University's mission as well as offset pending cuts. The Corporation has, and will continue to be a foundational fiscal catalyst in increasing sponsored activities at the University.

The Corporation, as the designated fiscal manager of these external resources, will continue playing a vital role in the administration and advancement of research, teaching and public service for the University. As these financial statements reflect, the Corporation has managed to sustain a moderate increase in revenues in spite of an overall latent economy. All funding streams captured by the University and administered by the Corporation continue having positive impacts on the economic development, research capacity, and expansion of educational facilities of the University and the communities served throughout the state.

**WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION**

**STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2012 AND 2011**

	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 490,794	\$ 163,219
Grants and contracts receivable	654,684	1,181,704
Other receivables	2,664	12,001
Due from West Virginia State University	5,530	4,000
Prepaid expense	<u>125,310</u>	<u>151,803</u>
Total current assets	1,278,982	1,512,727
NONCURRENT ASSETS — Capital assets — net	<u>1,428,578</u>	<u>1,411,981</u>
TOTAL	<u>\$ 2,707,560</u>	<u>\$ 2,924,708</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 254,897	\$ 278,748
Due to Other	17,796	
Compensated absences — current portion	<u>230,255</u>	<u>245,734</u>
Total current liabilities	<u>502,948</u>	<u>524,482</u>
NONCURRENT LIABILITIES:		
Compensated absences — noncurrent portion	56,041	29,737
Other post employment benefits liability	<u>2,643,673</u>	<u>1,958,639</u>
Total noncurrent liabilities	<u>2,699,714</u>	<u>1,988,376</u>
Total liabilities	<u>3,202,662</u>	<u>2,512,858</u>
NET ASSETS (DEFICIT):		
Invested in capital assets	1,428,578	1,411,981
Unrestricted	<u>(1,923,680)</u>	<u>(1,000,131)</u>
Total net assets (deficit)	<u>(495,102)</u>	<u>411,850</u>
TOTAL	<u>\$ 2,707,560</u>	<u>\$ 2,924,708</u>

See notes to financial statements.

**WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
OPERATING REVENUES — Contracts and grants:		
Federal	\$ 11,868,875	\$ 9,517,211
State	2,491,896	2,629,972
Private	<u>544,719</u>	<u>870,015</u>
Total operating revenues	<u>14,905,490</u>	<u>13,017,198</u>
OPERATING EXPENSES:		
Salaries and wages	6,656,236	6,898,142
Supplies and other services	7,709,990	5,709,783
Benefits	1,413,022	1,358,738
Depreciation	389,781	364,564
Utilities	<u>49,989</u>	<u>54,568</u>
Total operating expenses	<u>16,219,018</u>	<u>14,385,795</u>
OPERATING LOSS	<u>(1,313,528)</u>	<u>(1,368,597)</u>
NONOPERATING REVENUES (EXPENSES):		
Investment income	198	98
Loss on disposal of capital assets	<u>(8,241)</u>	<u>(84,323)</u>
Net nonoperating expenses	<u>(8,043)</u>	<u>(84,225)</u>
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(1,321,571)	(1,452,822)
CAPITAL GRANTS AND GIFTS	<u>414,619</u>	<u>710,805</u>
DECREASE IN NET ASSETS	(906,952)	(742,017)
NET ASSETS — Beginning of year	<u>411,850</u>	<u>1,153,867</u>
NET ASSETS (DEFICIT) — End of year	<u>\$ (495,102)</u>	<u>\$ 411,850</u>

See notes to financial statements.

**WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
CASH FLOWS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES:		
Contracts and grants	\$ 15,440,556	\$ 12,748,388
Payments to and on behalf of employees	(7,401,501)	(7,189,089)
Payments to suppliers	(7,661,900)	(5,776,720)
Payments to utilities	(49,778)	(54,568)
Net cash provided by (used in) operating activities	<u>327,377</u>	<u>(271,989)</u>
CASH FLOWS PROVIDED BY CAPITAL		
FINANCING ACTIVITIES:		
Capital grants and gifts received	414,619	710,806
Purchases of capital assets	(414,619)	(710,806)
Net cash provided by capital financing activities	<u>-</u>	<u>-</u>
CASH FLOWS PROVIDED BY INVESTING		
ACTIVITIES — Investment income	<u>198</u>	<u>98</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	327,575	(271,891)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>163,219</u>	<u>435,110</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 490,794</u>	<u>\$ 163,219</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH		
PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating loss	\$ (1,313,528)	\$ (1,368,597)
Adjustments to reconcile net operating loss to		
net cash provided by (used in) operating activities:		
Depreciation expense	389,781	364,564
Changes in assets and liabilities:		
Grants/contracts receivable	527,020	(265,796)
Other receivable	9,337	(1,654)
Due from West Virginia State University	(1,530)	(1,360)
Prepaid expenses	26,493	(14,740)
Accounts payable and due to other	(6,055)	(52,196)
Compensated absences and other post employment		
benefits liability	<u>695,859</u>	<u>1,067,790</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 327,377</u>	<u>\$ (271,989)</u>
NONCASH INVESTING AND FINANCING ACTIVITIES —		
Loss on disposal of capital assets	<u>\$ (8,241)</u>	<u>\$ (84,323)</u>

See notes to financial statements

**WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

1. ORGANIZATION

West Virginia State University Research and Development Corporation (the "Corporation") is a not-for-profit corporation incorporated in 1991, pursuant to the laws of the State of West Virginia (the "State"). The purpose of the Corporation is to foster, support, and assist in any research and economic development activities consistent with the educational objectives and mission of West Virginia State University (the "University"). With the assistance of the University, the Corporation has been designated by the University to fulfill the role of public institutions to work in partnership with business, industry, or government and encourages the acceptance of gifts, grants, contracts, and equipment and the sharing of facilities, equipment, technical assistance, and instructional programs in the State. The Corporation is governed by a board of directors (the "Board of Directors"), the chairperson of which is the president of the University.

During fiscal year 2008, House Bill 3215 was passed, which clarified and redefined relationships between and among certain higher education boards and institutions. This legislation defines the statewide network of independent accredited community and technical colleges. Effective June 1, 2007, the administratively linked community and technical college of the University established its own Board of Governors. As required, the newly established Kanawha Valley Community and Technical College Board of Governors and the Board of Directors of the WVSU Research and Development Corporation agreed on a division of assets to be transferred to the Kanawha Valley Community and Technical College.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Corporation have been prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board standards (GASB). The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the Corporation's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

Reporting Entity — The Corporation is included in the financial statements of the University (its Parent), as the University is the sole member of the nonstock not-for-profit corporation. The University is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State that are not included in the State's general fund. The University is a separate entity which, along with all State institutions of higher education, the West Virginia Higher Education Policy Commission (which includes West Virginia Network for Educational Telecomputing) (the "Commission"), and the West Virginia Council for Community and Technical College Education form the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State's comprehensive annual financial report.

Financial Statement Presentation — GASB establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on a basis to focus on the Corporation as a whole. Previously, financial statements focused on the accountability of individual fund groups rather than on the Corporation as a whole. GASB Statement No. 35, *Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities*, reports equity as “net assets” rather than “fund balance.” Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of University obligations. The Corporation’s net assets are classified as follows:

Invested in Capital Assets — This represents the Corporation’s total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt. The Corporation has no capital-related debt.

Restricted Net Assets, Expendable — This includes resources in which the Corporation is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Restricted Net Assets, Nonexpendable — This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The Corporation does not have any restricted nonexpendable net assets at June 30, 2012 or 2011.

Unrestricted Net Assets — Unrestricted net assets include resources that are not subject to externally imposed stipulations. Such resources are derived from investment income and sales and services of educational activities. Unrestricted net assets are used for transactions related to the educational and general operations of the Corporation and may be designated for specific purposes by action of the Board of Directors.

Basis of Accounting — For financial reporting purposes, the Corporation is considered a special-purpose government engaged only in business-type activities. Accordingly, the Corporation’s financial statements have been prepared on the accrual basis of accounting with a flow of economic resources measurement focus. Revenues are reported when earned and expenses are reported when materials or services are received. All intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents — For purposes of the statements of net assets, the Corporation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Allowance for Doubtful Accounts — It is the Corporation’s policy to provide for future losses on uncollectible accounts, contracts, grants, and loans receivable based on an evaluation of the underlying account, contract, grant, and loan balances, the historical collectibility experienced by the Corporation on such balances, and such other factors which, in the Corporation’s judgment, require consideration in estimating doubtful accounts. As of June 30, 2012 and 2011, respectively, the Corporation has not recorded an allowance for doubtful accounts.

Capital Assets — Capital assets include property, plant, and equipment, software, books, and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and infrastructure, 20 years for land improvements, 7 years for library books, 5 years for software, and 3 to 10 years for furniture and equipment. The Corporation’s threshold for capitalizing capital assets is \$5,000.

Compensated Absences and Other Post Employment Benefits Liability — GASB provides for the measurement, recognition, and display of OPEB expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State. The Corporation is required to participate in this multiple-employer, cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State of West Virginia. Details regarding this plan can be obtained by contacting the West Virginia Public Employees Insurance Agency (PEIA), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0710 or <http://www.wvpeia.com>.

GASB requires entities to accrue for employees' rights to receive compensation for vacation leave or payments in lieu of accrued vacation or sick leave as such benefits are earned and payment becomes probable. The Corporation's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1 1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage, and three days extend health insurance for one month of family coverage. For employees hired after 1988, or who were hired before 1988 but did not choose such coverage until after 1988 but before July 1, 2001, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001, or later will no longer receive sick leave credit toward insurance premiums when they retire. Additionally, all retirees have the option to purchase continued coverage regardless of their eligibility for premium credits. This liability is now provided for under the multiple-employer, cost-sharing plan sponsored by the State.

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally, 3 1/3 years of teaching service extend health insurance for one year of single coverage, and five years extend health insurance for one year of family coverage. Faculty hired after July 1, 2009, will no longer receive years of service credit toward insurance premiums when they retire. Employees hired after July 1, 2010, receive no health insurance premium subsidy from the Corporation. Two groups of employees hired after July 1, 2010, will not be required to pay the unsubsidized rate: 1) active employees who were originally hired before July 1, 2010, who have a break in service of fewer than two years after July 1, 2010; and 2) retired employees who retired before July 1, 2010, return to active service after July 1, 2010, and then go back into retirement. In those cases, the original hire date will apply.

The estimated expense and expense incurred for the vacation leave or OPEB benefits are recorded as a component of benefits expense in the combined statements of revenues, expenses, and changes in net assets.

Risk Management — The State's Board of Risk and Insurance Management (BRIM) provides general liability coverage to the Corporation and its employees. Such coverage may be provided to the Corporation by BRIM through self-insurance programs maintained by BRIM or policies underwritten by BRIM that may involve experience-related premiums or adjustments to BRIM.

BRIM engages an independent actuary to assist in the determination of its premiums so as to minimize the likelihood of premium adjustments to the Corporation or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums the Corporation is currently charged by BRIM and the ultimate cost of that insurance based on the Corporation's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to the Corporation and the Corporation's ultimate actual loss experience, the difference will be recorded as the change in estimate becomes known.

Classification of Revenues — The Corporation has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating Revenues — Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local, and nongovernmental grants and contracts, and (4) sales and services of educational activities.

Nonoperating Revenues — Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB, such as state appropriations, Federal Pell Grants, investment income, and sale of capital assets (including natural resources).

Other Revenues — Other revenues consist primarily of capital grants and gifts.

Use of Restricted Net Assets — The Corporation has not adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Generally, the Corporation attempts to utilize restricted net assets first when practical.

Government Grants and Contracts — Government grants and contracts normally provide for the recovery of direct and indirect costs subject to an audit. The Corporation recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to five years.

Tax Status — The Corporation has applied for and received from the Internal Revenue Service an exemption from taxation under Section 501(c)(3) of the Internal Revenue Code as an entity organized for educational, research, and economic development purposes.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Newly Adopted Statements Issued by the Governmental Accounting Standards Board — During 2011, the Corporation adopted Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This statement addresses how to account for and report service concession arrangements (SCAs) by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators. The adoption of this statement did not have a material impact on the financial statements.

The Corporation also adopted issued Statement No. 61, *The Financial Reporting Entity: Omnibus — an amendment of GASB Statements No. 14 and No. 34*. This statement improves financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of the entity. The adoption of this statement did not have a material impact on the financial statements.

The Corporation also adopted Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance included in the FASB and AICPA pronouncements issued on or before November 30, 1989. This statement will improve

financial reporting by contribution to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. The adoption of this statement did not have a material impact on the financial statements.

The Corporation also adopted Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. The objective of this statement is to improve financial reporting by clarifying whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The adoption of this statement did not have a material impact on the financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board — The Governmental Accounting Standards Board has issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for fiscal years beginning after December 15, 2011. The objective of this statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position and related disclosures. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 63 may have on its financial statements.

The GASB has also issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for fiscal years beginning after December 15, 2012. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 65 may have on its financial statements.

The GASB has also issued Statement No. 66, *Technical Corrections — 2012: An Amendment of GASB Statements No. 10 and No. 64*, effective for fiscal years beginning after December 15, 2012. This statement improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November, 1989 FASB and AICPA Pronouncements*. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 66 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

The combined carrying amount of cash in bank at June 30, 2012 and 2011, was \$ 490,794 and \$163,219, respectively, compared with the combined bank balance of \$735,905 and \$427,435, respectively. The difference is primarily caused by outstanding checks and items in transit. Of the bank balances at June 30, 2012 and 2011, \$537,491 and \$427,435, respectively, were covered by Federal Deposit Insurance Corporation, while \$198,414 and \$0, respectively, was uninsured and uncollateralized and therefore exposed to custodial credit risk. The Corporation does not have a policy related to this type of deposit risk.

4. CAPITAL ASSETS

A summary of capital asset transactions for the years ended June 30, 2012 and 2011, is as follows:

2012	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets:				
Equipment	\$3,921,888	\$299,335	\$(120,608)	\$4,100,615
Motor vehicles	486,292	115,284	(99,972)	501,604
Software	340,069			340,069
Library books	205,945			205,945
Total capital assets	<u>4,954,194</u>	<u>414,619</u>	<u>(220,580)</u>	<u>5,148,233</u>
Less accumulated depreciation for:				
Equipment	2,645,700	326,207	(112,367)	2,859,540
Motor vehicles	350,499	63,574	(99,972)	314,101
Software	340,069			340,069
Library books	205,945			205,945
Total accumulated depreciation	<u>3,542,213</u>	<u>389,781</u>	<u>(212,339)</u>	<u>3,719,655</u>
Capital assets — net	<u>\$1,411,981</u>	<u>\$ 24,838</u>	<u>\$ (8,241)</u>	<u>\$1,428,578</u>
Capital asset summary:				
Capital assets	\$4,954,194	\$414,619	\$(220,580)	\$5,148,233
Less accumulated depreciation	<u>3,542,213</u>	<u>389,781</u>	<u>(212,339)</u>	<u>3,719,655</u>
Capital assets — net	<u>\$1,411,981</u>	<u>\$ 24,838</u>	<u>\$ (8,241)</u>	<u>\$1,428,578</u>
2011	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets:				
Equipment	\$3,739,553	\$639,586	\$(457,251)	\$3,921,888
Motor vehicles	415,072	71,220		486,292
Software	340,069			340,069
Library books	205,945			205,945
Total capital assets	<u>4,700,639</u>	<u>710,806</u>	<u>(457,251)</u>	<u>4,954,194</u>
Less accumulated depreciation for:				
Equipment	2,707,579	311,049	(372,928)	2,645,700
Motor vehicles	296,984	53,515		350,499
Software	340,069			340,069
Library books	205,945			205,945
Total accumulated depreciation	<u>3,550,577</u>	<u>364,564</u>	<u>(372,928)</u>	<u>3,542,213</u>
Capital assets — net	<u>\$1,150,062</u>	<u>\$346,242</u>	<u>\$ (84,323)</u>	<u>\$1,411,981</u>
Capital asset summary:				
Capital assets	\$4,700,639	\$710,806	\$(457,251)	\$4,954,194
Less accumulated depreciation	<u>3,550,577</u>	<u>382,551</u>	<u>(390,915)</u>	<u>3,542,213</u>
Capital assets — net	<u>\$1,150,062</u>	<u>\$328,255</u>	<u>\$ (66,336)</u>	<u>\$1,411,981</u>

Title for motor vehicles is with the University.

5. OTHER POST EMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA, which are based upon actuarial determined amounts. At June 30, 2012 and 2011, the noncurrent liability related to OPEB costs was \$2,643,673 and \$1,958,639, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$685,034 and \$0, respectively, during 2012 and \$1,184,365 and \$0, respectively, during 2011. As of the year ended June 30, 2012, there were zero retirees receiving these benefits.

6. RETIREMENT PLAN

All eligible employees of the Corporation participate in the Teachers' Insurance and Annuities Association — College Retirement Equities Fund (the TIAA-CREF). The TIAA-CREF is a defined contribution plan in which benefits are based solely upon amounts contributed plus investment earnings. Each employee who elects to participate in this plan is required to make a contribution equal to 6% of total annual compensation. The Corporation matches the employees' 6% contributions. Contributions are immediately and fully vested. In addition, employees may elect to make additional contributions to TIAA-CREF, which is not matched by the Corporation.

Total contributions to the TIAA-CREF for the years ended June 30, 2012, 2011 and 2010, were \$554,363, \$557,187 and \$534,857, respectively, which consisted of equal contributions from the Corporation and covered employees in 2012, 2011 and 2010 of \$277,181, \$278,583 and 267,429, respectively.

The Corporation's total payroll for the years ended June 30, 2012 and 2011, was \$5,743,267 and \$5,830,313, respectively; total covered employees' salaries for TIAA-CREF were \$4,619,690 and \$4,643,222 in 2012 and 2011, respectively.

7. CONTINGENCIES

Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. The Corporation's management believes disallowances, if any, will not have a significant financial impact on the Corporation's financial position.

The nature of the educational industry is such that, from time-to-time, claims will be presented against the Corporation on account of alleged negligence, acts of discrimination, breach of contract, or disagreements arising from the interpretation of laws or regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system. In the opinion of management, all known claims are covered by insurance or are such that an award against the Corporation would not seriously affect the financial position of the institution.

8. SUBSEQUENT EVENTS

The Corporation did not have any recognized or nonrecognized subsequent events that need to be recorded or disclosed after June 30, 2012, the statement of net assets date. Subsequent events have been evaluated through the date of the auditors' report, the date the financial statements were available to be issued.

9. OPERATING LEASES

Future minimum lease payments for years subsequent to June 30, 2012, are as follows:

Year Ended December 31,

2013	\$ 52,666
2014	34,909
2015	31,112

The total operating lease expense for the years ended June 30, 2012 and 2011, was \$74,583 and \$66,596, respectively. The Corporation does not have any noncancelable leases.

10. UNRESTRICTED NET ASSETS

At June 30, 2012 and 2011, the Corporation has no designated net assets.

11. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

Operating expenses within both natural and functional classifications for the years ended June 30, 2012 and 2011, are as follows:

2012	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Depreciation	Total
Research	\$ 2,036,212	\$ 441,193	\$ 1,332,685	\$ 19,979	\$ -	\$ 3,830,069
Public service	1,579,358	425,426	2,615,921	16,402		4,637,107
General institutional support	3,017,209	543,808	3,688,958	13,608		7,263,583
Auxiliary enterprises	23,457	2,595	72,426			98,478
Depreciation					389,781	389,781
Total	<u>\$ 6,656,236</u>	<u>\$ 1,413,022</u>	<u>\$ 7,709,990</u>	<u>\$ 49,989</u>	<u>\$ 389,781</u>	<u>\$ 16,219,018</u>
2011	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Depreciation	Total
Research	\$ 1,959,393	\$ 408,788	\$ 1,579,490	\$ 18,434	\$ -	\$ 3,966,105
Public service	716,090	173,287	1,236,963	17,090		2,143,430
General institutional support	4,197,367	775,357	2,544,625	19,044		7,536,393
Auxiliary enterprises	25,292	1,306	348,705			375,303
Depreciation					364,564	364,564
Total	<u>\$ 6,898,142</u>	<u>\$ 1,358,738</u>	<u>\$ 5,709,783</u>	<u>\$ 54,568</u>	<u>\$ 364,564</u>	<u>\$ 14,385,795</u>

* * * * *

SUPPLEMENTAL SCHEDULE

**WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Federal Expenditures
RESEARCH AND DEVELOPMENT CLUSTER:				
U.S. Department of Agriculture				
Bioplex 10 — Agricultural Waste Management Research Program	D	10.200		\$ 19 \$ -
Bioplex 11 — Agricultural Waste Management Research Program	D	10.200		233,688
		10.200 Subtotal		233,707
Cooperative State Research Education and Extension Service				
Cooperative Research (Evans Allen — Section 1445) 1890	D	10.205		1,425,961
		10.205 Subtotal		1,425,961
Capacity Building Grant — TROUT				
Capacity Building Grant — BACK TO GENES	D	10.216		18,385
Capacity Building Grant — CUCURBIT	D	10.216		23,339
Capacity Building Grant — FINFISHES	D	10.216		23,699
Capacity Building Grant — 4-H FAMILY	D	10.216		22,624
Capacity Building Grant — 4-H FAMILY	D	10.216		14,473
Capacity Building Grant — VALUE ADDED PEPPERS	D	10.216		80,919
Capacity Building Grant — BIO ENERGY COMM	D	10.216		166,567
Capacity Building Grant — CROP EVOLUTION	D	10.216		100,704
		10.216 Subtotal		450,710
Sustainable Agriculture (SARE)				
	I	10.215	University of Vermont	9,292
		10.215 Subtotal		9,292
Hibiscus				
	I	10.216	Southern University	12,051
				12,051
National Institutes of Health (NIH)				
WV INBRE 2011	I	93.389	MarshallUniversityRC	4,303
WV INBRE HANKINS	I	93.389	MarshallUniversityRC	864
WV INBRE HANKINS SUMMER	I	93.389	MarshallUniversityRC	17,685
WV INBRE HANKINS 12	I	93.389	MarshallUniversityRC	198,855
WV INBRE HANKINS 13	I	93.389	MarshallUniversityRC	9,829
WV INBRE 12	I	93.389	MarshallUniversityRC	143,856
WV INBRE HSTA	I	93.389	MarshallUniversityRC	37,637
		93.389 Subtotal		413,029
National Science Foundation (NSF)				
EPSCOR — Track 1	I	47.081	WVRO HEPC	446,939
EPSCOR — Track 2 Cyberinfrastructure	I	47.082	WVRO HEPC	115,961
		Subtotal		562,900
Total research and development cluster				3,107,650

(Continued)

**WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Federal Expenditures
US Department of Agriculture				
MCINTIRE STENNIS 10	D	10.202	\$ 40,947	\$ -
MCINTIRE STENNIS 11	D	10.202	40,682	
		10.202 Subtotal		81,629
Organic Vegetable	I	10.303	Ohio State University	6,838
Solcap 2	I	10.303	Michigan State University	790
Solcap 3	I	10.303	Michigan State University	3,872
		10.303 Subtotal		11,500
Cooperative State Research Education and Extension Service				
Cooperative Extension Service (Smith Lever — Section 1444)	D	10.500	1,223,141	
1890 Facilities Grant Extension Service	D	10.500	816,907	
Renewable Resources Extension Act RREA 08	D	10.500	7,315	
Renewable Resources Extension Act — RREA 10	D	10.500	1,947	
Renewable Resources Extension Act — RREA 12	D	10.500	398	
Expanded Food and Nutrition Education Program — EFNEP 10	D	10.500	43,976	
Expanded Food and Nutrition Education Program — EFNEP 11	D	10.500	29,015	
Children, Youth, and Families at Risk Program — CYFAR 10	D	10.500	2,213	
Children, Youth, and Families at Risk Program — CYFAR 11	D	10.500	54,298	
Children, Youth, and Families at Risk Program — CYFAR 12	D	10.500	79,805	
Children, Youth, and Families at Risk Program — CYFAR SCRATCH	D	10.500	68,664	
DOD Health Literacy	D	10.500	140,215	
		10.500 Subtotal		2,467,894
Summer Food Program 10	D	10.559	35,815	
		10.559 Subtotal		35,815
Rural Business Service — RBS 10	D	10.856	11	
Rural Business Service — RBS 11	D	10.856	45,137	
Rural Business Service — RBS 12	D	10.856	31,780	
		10.856 Subtotal		76,928
USFC ARD SYMPOSIUM	D	10.001	5,475	
				5,475
Specialty Crop Block Grants				
Constructing Ecofriendly High Tunnel	I	10.170	WV Dept. of Agriculture	5,706
Renewable Biodegradable	I	10.170	WV Dept. of Agriculture	1,144
Small Fruit Tree Workshop	I	10.170	WV Dept. of Agriculture	8,945
Blackberry Productions	I	10.170	WV Dept. of Agriculture	6,776
		10.170 Subtotal		22,571

(Continued)

**WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Federal Expenditures
Afri Food Security	I	10.310	Pennsylvania State	\$ 14,840
Tomato Blight	I	10.200	Ohio State University	5,648
WV Cut Flowers	I	10.170	WV Dept. of Agriculture	198
Speciality Lettuce	I	10.170	WV Dept. of Agriculture	5,471
USDA ARS 11	D	10.001		24,795
USDA ARS	D	10.001		139
		Subtotal		51,091
National Science Foundation				
LSAMP 246	I	47.076	University of Kentucky	8,278
LSAMP 247	I	47.076	University of Kentucky	30,818
Appalachian Information Technology Extension Service	I	47.076	Virginia Polytecnic	116
		47.076 Subtotal		39,212
U.S. Department of Education (D of Ed)				
Title III-B-2010 Strengthening Historically Black College:	D	84.031		6,634
Title III-B-2011 Strengthening Historically Black College:	D	84.031		692,111
Title III-B-2012 Strengthening Historically Black College:	D	84.031		1,401,743
Title III CCRAA 2009	D	84.031B		2,065
Title III CCRAA 2010	D	84.031B		30,202
Title III Part F 2011	D	84.031B		432,904
Title III Part F 2012	D	84.031 B		480,298
		Subtotal		3,045,957
Title VII Master 2010	D	84.382 G		3,651
Title VII Master 2011	D	84.382 G		115,688
Title VII Master 2012	D	84.382 G		485,049
		84.382 G Subtotal		604,388
African Zion Church	D	15.932		113,669
				113,669
National Aeronautics & Space Administration (NASA)				
Science, Engineering, Mathematics & Aerospace Acaden	D	43.001		1,097,617
				1,097,617
U.S. Department of the Interior				
4-H Youth Mentoring 11	I	16.726	4-H	40,050
4-H Youth Mentoring 12	I	16.726	4-H	4,434
				44,484
U.S. Department of Health and Human Services				
Healthy Families 2011	I	93.558	WV Dept of Health Huma	54,663
REACH 2011	I	93.283	WV Dept of Health Huma	30,090
REACH 2012	I	93.283	WV Dept of Health Huma	12,652
				97,405
U.S. Department of Housing and Urban Development (HUD)				
HUD Media Center	D	14.520		636,906
				636,906
U.S. Department of Transportation (DOT)				
STI 09	I	20.205	WV DOT	5,800
STI 11	I	20.205	WV DOT	55,672
STI 12	I	20.205	WV DOT	2,139
DOT DBE	I	20.205	WV DOT	265,117
		20.205 Subtotal		328,728
TOTAL FEDERAL AWARDS				\$ 11,868,919

See notes to schedule of expenditures of federal awards.

(Concluded)

**WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

1. The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of West Virginia State University Research and Development Corporation (the "Corporation") for the year ended June 30, 2012, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. For purposes of the Schedule, federal awards have been classified into two types: direct federal funds (D) and indirect federal funds (I) received from nonfederal organizations made under federally sponsored programs conducted by those organizations.
2. Catalog of Federal Domestic Assistance (CFDA) Numbers are presented for those programs for which such numbers are available. In instances where no CFDA Number is available, the contract award number is included.
3. The Corporation receives significant financial assistance from the federal government, including the sponsorship of federal research projects. Research grants and contracts normally provide for the recovery of direct and indirect costs. Recovery of the related indirect costs is generally recorded at predetermined rates negotiated with the federal government. Entitlement to these resources for the recovery of the applicable direct and related indirect costs is generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially, all grants and the Corporation's indirect cost rate are subject to financial and compliance reviews and audits by the grantors. In management's opinion, the likelihood of an adverse material outcome upon the Corporation's financial position from those reviews and audits is unlikely.
4. Subrecipient expenditures in the Schedule of Expenditures of Federal Awards at June 30, 2012, include:

Federal Agency	Subrecipient	CFDA	Subrecipient Expenditures
Research and Development:			
U.S. Department of Agriculture	Marshall University Research Corporation	10.200	17,410
U.S. Department of Agriculture	Mississippi State University	10.216	8,648
U.S. Department of Agriculture	Cornell Univ	10.216	21,100
U.S. Department of Agriculture	Texas A&M Research Foundation	10.216	<u>6,672</u>
	Subtotal Research and Development		53,830
Other Programs:			
National Aeronautics & Space Administration	Paragon Tec Inc.	43.001	658,200
Department of Defense	Clemson Univ	10.500	7,979
Department of Defense	Delaware State Univ Cooperative Extensions	10.500	8,146
Department of Defense	North Carolina State University	10.500	4,496
Department of Defense	Virginia State University	10.500	<u>3,066</u>
	Total All Subrecipients		<u>\$ 735,717</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of
West Virginia State University
Research and Development Corporation

We have audited the financial statements of West Virginia State University Research and Development Corporation (a nonprofit organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 11, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of West Virginia State University Research and Development Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered West Virginia State University Research and Development Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of West Virginia State University Research and Development Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether West Virginia State University Research and Development Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the West Virginia State University Research and Development Corporation in a separate letter dated October 11, 2012.

This report is intended solely for the information and use of management, board of directors, others within the entity, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature in black ink, appearing to read "K. S. Stig, CPA, PLLC".

Huntington, West Virginia
October 11, 2012

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors of
West Virginia State University
Research and Development Corporation:

Compliance

We have audited West Virginia State University Research and Development Corporation's (the Corporation) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended June 30, 2012. The Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Corporation's compliance with those requirements.

In our opinion, the Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Corporation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, board of directors, others within the entity, the Board of Trustees, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Kayla S. Styer, CPA, PLLC". The signature is written in a cursive, flowing style.

Huntington, West Virginia
October 11, 2012

**WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION I — SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:

Unqualified Opinion

Internal control over financial reporting:
Material weakness(es) identified?

Yes _____ No X

Significant deficiencies identified that are not considered
to be material weaknesses?

Yes _____ None Reported X

Noncompliance material to financial statements noted?

Yes _____ No X

FEDERAL AWARDS

Internal control over major programs:
Material weakness(es) identified?

Yes _____ No X

Significant deficiencies identified that are not considered
to be material weaknesses?

Yes _____ None Reported X

Noncompliance material to financial statements noted?

Yes _____ No X

Type of auditors' report issued on compliance for
major programs:

Unqualified Opinion

Any audit findings disclosed that are required to be
reported in accordance with Section .510(a) of
OMB Circular A-133?

Yes _____ No X

Identification of major programs:

Name of Federal Program or Cluster

CFDA Number

National Aeronautics and Space Administration
Title III
HUD Media Center

43.001
84.031
14.520

Dollar threshold used to distinguish between Type A and Type B Programs:

\$356,023

Auditee qualified as a low-risk auditee?

Yes X No _____

SECTION II. — FINANCIAL STATEMENT FINDINGS SECTION

No matters are reportable.

SECTION III. — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

No matters are reportable.